"Bandhan Bank Limited

Q2 FY '24 Earnings Conference Call"

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MANAGEMENT: **MR. CHANDRA SHEKHAR GHOSH – FOUNDER, MANAGING DIRECTOR & CEO – BANDHAN BANK LIMITED**
MR. RATAN KUMAR KESH – EXECUTIVE DIRECTOR – BANDHAN BANK LIMITED
MR. SUNIL SAMDANI – CHIEF FINANCIAL OFFICER - BANDHAN BANK LIMITED
MR. SHANTANU SENGUPTA – HEAD RETAIL BANKING – BANDHAN BANK LIMITED
MR. VIKASH MUNDRA – HEAD INVESTOR RELATIONS – BANDHAN BANK LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '24 Earnings Conference Call for Bandhan Bank. As a reminder all participant lines will be in the listen mode. There will be an opportunity for you to ask questions after the presentation concludes. Should need assistance during this conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vikash Mundhra from Bandhan Bank. Thank you, and over to you, sir.

Vikash Mundhra: Thank you, Rayo. Good afternoon, everyone, and a warm welcome to all the participants. It's a pleasure to welcome you all to the Bandhan Bank business and financial performance for the quarter ending September'23. We will take this opportunity to update you on the recent developments in the industry as well as on Bandhan Bank during the quarter.

To discuss all this in detail, we have with us our Founder, Managing Director & CEO - Mr. Chandra Shekhar Ghosh, Executive Director - Mr. Ratan Kumar Kesh, Chief Financial Officer - Mr. Sunil Samdani; Head Retail Banking - Mr. Shantanu Sengupta, myself, Vikash Mundhra - Head of Investor Relations, along with other senior management team of the bank. We'll be happy to provide you with any clarity if required from the current quarter's number and the way forward.

Now I would like to request our Founder, MD and CEO, Mr. Chandra Shekhar Ghosh to brief you all about our bank's operational and financial performance along with the development for the quarter ending September 2023. Over to you sir.

Chandra Shekhar Ghosh: Thank you, Vikash. Namaskar. A warm welcome to all of you. I am pleased to state that July to September '23 quarter has been an encouraging quarter for the bank. However, before talking about business number, I want to update you about one important milestone that the bank has achieved very recently.

The bank earlier this month has successfully completed the migration into a new core banking system. We had faced some hiccups during the first few days as one can expect in a mega transformation like this. But now we are fully functional. We are now live on Oracle's FLEXCUBE, a CBS platform used to by some of the largest banks in India and globally. This migration is the first state in our tech transformation journey.

Along with the CBS, we have also launched our all-new Internet banking platforms and mBandhan - our mobile banking app, both with far improved UX and UI and stronger functionalities. The new CBS, along with the surround system will enable us to be far more agile, launch newer and more potent products and services, use data and analytics more effectively and drive personalized customer experience.

Coming to this, the business point of view. Despite the various global uncertainties, India's key macro parameters remained strong. Inflation has softened to 5%, GDP in FY24 is projected to be around 6.5% and the RBI has kept the repo rate unchanged for over 8 months. The favourable macro backdrop should continue to help the momentum in the Indian BFSI sector in the coming months.

During Q2FY24, Bandhan Bank's overall advances grew 12.3% YoY and 4.3% QoQ. The QoQ growth in the loan book reflects uptick in demand for all asset verticals. EEB vertical added about 6 lakh new borrowers during Q2 FY24 as the EEB portfolio increased 5.2% QoQ. Growth in the case of retail assets and commercial banking continues to be impressive. The retail loan book grew 80% YoY and 15% QoQ. The Commercial Banking vertical consisting of Financial Institution Group (FIG), MMG and SME (LAP) grew 65% YoY and nearly 7% QoQ. The housing finance book has registered a growth of nearly 4% YoY.

In line with our medium-term strategic objectives, the share of secured assets as part of our total loan book continues to increase – it reached nearly 44% in Q2FY24, up from 38% a year ago. We expect to have nearly 50% of our portfolio in secured assets by FY26.

On the liabilities side, total deposits, at Rs.1.12 lakh crore as at end-Sept 2023, grew 12.8% YoY, a tad stronger than industry growth. As we focus on granular retail deposits, our total retail deposit and retail term deposit grew by 13% and 20% YoY, respectively. The retail-to-total deposits ratio, which was at around 71% in March 2023, moved up to 74% by September 2023.

CASA deposits – which stand at Rs 43,196 crores as at end of Q2 FY24 – have shown an impressive growth of 10.5% QoQ and about 6.6% YoY. CASA Ratio stands at a healthy 38.5% compared to 36% in the previous quarter. Microfinance customers continue to contribute just about 4% of our total deposits.

Customers continue to repose their trust in the Bank as (a) The Bank has added about 10 lakh customers in this quarter; (b) Number of liability customers increased by 12.5% Y-o-Y; and (c) Volume of total customer transactions increased by 47% Y-o-Y. In terms of value, it increased by 13% Y-o-Y.

Let us now move on to trend in collections and asset quality. There has been good improvement in collection efficiency. The Bank's overall collection efficiency (excluding NPA) stood at 98% for the month of September 2023, up from 97% in sept 2022. Especially for EEB Segment, our collection efficiency (excluding NPA) stood at 98% for the month September 2023, significantly up from about 95% a year ago.

The post-Covid portfolio (consisting of all loans disbursed after June 2021) clearly turning out to be a strong one as (a) GNPA ratio of the post-Covid book stands at 2.6%; (b) There has been improvement across buckets for both forward and backward flows; (c) "Current" to SMA0 flow was 1.5% in Q2FY24 against 2.8% a year ago; and (d) On the other hand, SMA0 to "current" flows improved to nearly 25% in Q2 FY24 from 13% a year back.

Discussing the profitability of the bank, the Bank has registered a net profit of Rs.721 crores during Q2 FY24, against a net profit of Rs.209 crores a year ago. This was a YoY growth of nearly 245% in the profit. Our Net Interest Income (NII) in Q2 FY24 was Rs. 2,443 crore, compared to that of Rs. 2,193 crore in Q2 FY23, registering a growth of 11.4% YoY.

Our Net Interest Margin (NIM) stood at 7.2% in Q2 FY24, marginally better than 7% in Q2 FY23. With faster portfolio expansion in Q3 and Q4, NIM usually moves up. Just for the month of September, NIM was at 7.3% reflecting festive demand.

Gross NPA stood at 7.3% in Q2FY24 as compared to 6.8% in Q1FY24 and 7.2% a year back. Net NPA stood at 2.3% in Q2 FY24 vs 2.2% in Q1 FY24. However, total credit cost has been largely stable at 2.5% in Q2FY24. The Bank delivered an RoA of 1.9% and RoE of 14% in Q2FY24.

On branches, the Bank continues with emphasis on its branch network. This quarter we have added about 80 branches, over 70% of which are in Northern, Southern and Western Zones. Today the Bank has its branch presence in 35 of 36 states and union territories of the country.

I also want to highlight how our performance in digital banking has improved (a) 95% of our total GB transaction are happening digitally; (b) Monthly active users on our digital banking platforms are up 57% YoY; (c) Our digital transaction volume increased 47% YoY; (d) Our UPI transactions increased 63% YoY.

The Bank has enabled direct tax collection under pay at bank counter for customers as well as non-customers. We have also been authorised by the RBI for disbursement of central civil pension very recently. All this will help us offer better service to our customers and also to reach to new customers.

Overall, with all these figures, I'd like to summarize in three points. The growth of the business has come and showing this quarter is very good. In EEB, we have been disbursed Rs. 4,000 crores more than the last year's same quarter. 4 lakhs new customer, we have added this quarter on EEB and have given the loan to them.

Portfolio last year, the second quarter, there our INR 600 crores decline from the first quarter which is this year, second quarter, the portfolio is up by INR2,000 crores from the first quarter. And altogether, we have been seeing that a very good new and existing customers' credit demand has been increased. So that we are very confident on that. Credit growth has come up and whatever we have guided our credit growth for this financial year will be reached on that to nearly 20% year-on-year.

Second, my point on that, the quality of the portfolio, we see that the quality of the portfolio that DPD has come down. Total DPD SMA 0, 1, 2, in EEB has come down 1.3%, so that is also -- we have been seeing that the first rebuild recovery and the DPD going down have been -- given the confidence, we are returned back to the control of this portfolio and which is the better portfolio we are gradually like to show in future.

My third point on that, that is in deposit within this circumstances. The bank has been also growing the deposit in-line with the credit growth. And which have been given the confidence to us on that, we'll be like to continue whatever the demand of the credit growth, the deposit also will be not the challenge. Even not in -- if you see that my CASA has been increased from the last quarter, 2.5% in this quarter within this situation.

And my fourth point, all other parameters and ratio, it is all are aligned with the first quarter, more or less in the same on that all, it has been shown the confidence to the bank and the team that we are now coming to this better position and we are from here to grow in a better way to the future. So of course, whatever the credit cost, we guided for this financial year, 2% plus 20 basis points or minus will be like to reach.

To concluded, historically, the second half of the financial year is a significantly stronger period for most of our business verticals. As the festive season sets in, there has already been notable uptick in credit demand. Of late, we have successfully completed the migration into the new CBS and have initiated several steps to boost cross-sell and branch-led sales to grow the retail assets and liabilities portfolio and also to increase productivity per employee supported by our digital and analytics initiatives.

Overall, we are well on our way of achieve long-term strategic goals of portfolio and geographical diversification. Before I end my session, I on behalf of the whole Bandhan Bank family wish you and your family a very happy Durga Puja and Dushehra as well as Diwali. I wish you and your family all the very best, Thank you.

Vikash Mundhra: Rayo, we can start the question-and-answer session.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: Good afternoon sir. Sir, my question is on the DPD book of micro. Now if you see last quarter's SMA book, then this quarter slippage is around 65% of that book, Total SMA. Now we are left with an SMA of around INR22-23 billion. If you assume the same run rate of slippage, then would you again have a slippage of around INR10 billion or INR11 billion even in the next quarter or will recoveries improve materially? How do you view it?

Sunil Samdani: Mahrukh. See, H2 historically, if you see, has always been a better quarter or better half for us for any financial year, whether it's in terms of new business growth or also the collection point of view. So, the fact that our DPD has come down materially quarter-on-quarter. We expect this to reflect in the slippages number also going forward. And also, as I mentioned earlier, the recoveries will continue to improve. That has been the trend for last many years, H2, the recoveries are always better. So, on both counts, we expect one, the slippages to be lower and recoveries to be higher.

Mahrukh Adajania: Got it. So, any run rate of slippage for second half percentage terms or any such things that, if at all, it's possible to guide?

Sunil Samdani: So, we don't want to put a number. But for that very reason, we've added two more blocks into our presentation. This is on page seven. What we are saying is how our portfolio pre- and post-COVID in terms of asset quality looks like and also the vintage analysis. So, from starting Q1 FY '23, the disbursement and the portfolio performance accordingly. So, if you look at both these blocks, it gives us the confidence that the steady state credit cost guidance that we have been giving, this performance of last one year - 1.5 years disbursement is in line with that.

Ratan Kumar Kesh: If I may add a little more to it. FY '21 onwards, the portfolio is 92%, the GNPA is 2.6%. And if I go even to 18 months portfolio April '22 onwards, that is even better 2.3%. So directionally, a, the DPD bucket is getting lesser-and-lesser. Also, the overall GNPA is coming down for the new asset of portfolios. Therefore, we will continue to maintain that credit cost guidance of 2%-plus minus 20 basis points.

Mahrukh Adajania: Got it. But -- and that should be achieved in '25 or in '24 end itself?

Ratan Kumar Kesh: In FY24 end itself.

Moderator: Thank you. The next question is from the line of Gaurav Kochar from Mirae Asset. Please go ahead.

Gaurav Kochar: A couple of questions. Firstly, if I look at the DPD movement and then you have given the vintage analysis, in that slide. So, while you have given the NPA on disbursement, can you also call out what would be the DPD? I mean I want to understand what would be the PAR book because generally, NPA would take 90 days. And even if I look at 4Q numbers, from there, we are already starting to see NPA in the second quarter itself. So just to give some context, do we have the DPD number, zero-plus or maybe 30-plus early delinquency from that disbursement?

Chandra Shekhar Ghosh: No. If you see that in the page number six, so we have given that the DPD number, 30 days to 60 days, we have the DPD is 1.1%, 61 days to 90 days, 1.3%. So that is there.

Gaurav Kochar: No, not that, sir. I'm talking about the -- like you have mentioned NPA, in the next slide, quarter-by-quarter. So, let's say, you have given Q4 '23, the total disbursement was INR21,000 crores, of that INR120 crores return NPs and NPA as a percentage of disbursement is around 0.6. So rather than giving the NPA number, do you have a delinquency number, let's say, 30-plus? How much...

Chandra Shekhar Ghosh: That is not handy as of now.

Gaurav Kochar: Okay. That would have been a little more helpful because NPA would obviously take 90 days, but delinquency would give you an early indicator as to whether the situation is worsening. Because if I go by this, then clearly one year...

Chandra Shekhar Ghosh: Only one point I would like to mentioned in here, overall, if you see that the 2.6% of SMA0 in Q1FY24 has come down 1.8% in Q2FY24,1.5% of SMA1 in Q1FY24 has come down to 1.1% in current quarter. This is together of earlier portfolio & new portfolio.

Gaurav Kochar: Sure. But sir, all of this has come down by moving them into NPA, not by recovery. So, I mean, at an aggregate level, the entire pool, if I add the 1 to 30, 31 to 60 and all of it, including NPA, the pool has only gone up by INR300-odd crores. So, it's not as if this pool is coming down because you're recovering money. It's more or less there is a DPD movement. Your 30 bucket is going to 60, 60 to 90, 90 moving to NPA.

Sunil Samdani: Gaurav. If you add all of these, now let's add the DPD as well as NPA. The total increase for the quarter is INR260 crores, which is well below our guided credit cost guidance.

Gaurav Kochar: That is right, but ideally, because this is at an elevated level, one is expecting this to come down, not to go...

Sunil Samdani: So that we discussed in the previous question, right? That we expect the slippages to come down and the recovery is to go up further in the H2.

Gaurav Kochar: Okay. Sure. And secondly, on the PCR. Now you've given this contribution to NPA by vintage. If I look at the overall PCR, you are standing at around 70%, roughly 60%, 70% of your book is -- NPA book is -- 3/4 of your NPA book is MFI. And typically, in MFI, the recovery rates are much lower. So, is there a case of increasing the PCR moving it to maybe closer to 80% where most of the banks are today even without micro finance? So, I mean, is there a case of you -- because the recovery rates have clearly not been in line with expectation?

Sunil Samdani: As far as our PCR on the EEB book growth, we are at 85%. The other businesses, which the other second business, which is higher in terms of NPA in housing, where the coverage is about 38%-40%. So, to your point, the coverage on the unsecured book is already at an elevated level of 85%. And also, if you look on page eight. During the quarter, we've recovered INR246 crores from the ARC pool, which we have sold in the month of December '22 and March '23.

And further, if you break that up. That December tranche, whatever was to be paid to the ARC and the investor, we have fulfilled their requirements, including the IRR. So now on, we are in a situation where every recovery from this pool will start flowing into the bank. So, this is also an added recovery, which will start reflecting from Q2 onwards.

As far as the March pool goes, which we sold to ARC, we expect to fulfil that requirement also by Q3. So, the December one, we've already met the ARC and the investor requirements. March one, we expect it to be fulfilled by Q3. And in Q4, we will have both the tranche recovery reflecting into the bank's P&L. So there, the recovery is as strong as almost INR246 crores per quarter. We expect the overall credit cost, if I have to adjust a fixed credit costs to be in our guided range, much below the guided range.

Gaurav Kochar: Okay. Sir, just to understand, this INR246 crores, how does this get accounted? Because in the December column, as you mentioned, you already have in that Q4 column, you already have NPA sale to ARC as INR23 billion. Now this INR246 crores is out of that ARC. How does this get accounted? Is it part of the INR400 crores recovery we are seeing in this quarter? Or is this part of the P&L and netted from credit cost?

Sunil Samdani: So, two things. One, firstly, the entire INR246 crores is not something which has flown to the bank. It is only in the month of September that we've been able to fulfil their requirements. So only one month -- effectively, one month collection has flown to the bank, right? So, the full impact of that will be visible only in the third quarter. And that impact is about INR93 crores, which is reflected as part of reversal of SR provisions. The SR book, which we have kept as a bank, we have provided 100%. Now that we have started recovering that book is coming down. And accordingly, the provision is getting released, which is reflecting as part of my other income.

Gaurav Kochar: Okay. So, I think out of this INR246 crores, INR93 crores was reversed in this quarter P&L, the remaining will be reversed in the next quarter?

Sunil Samdani: So remaining is paid back to ARC. And now their quota for December is fulfilled.

Gaurav Kochar: Okay. So, this is out of this INR23.2 billion which we sold in Q4, correct?

Sunil Samdani: No. We're talking about Q3. The December Q3, INR8,900-odd crores.

Gaurav Kochar: Okay. Because in the -- okay, in sale to ARC, I cannot see anything in 3Q in your slide eight.

Sunil Samdani: It was from a written–off pool which we had sold.

Gaurav Kochar: Okay. Sure. Understood. So, let's say, on a steady state, let's say, next quarter onwards assuming this is steady state, what could be the slippage run rate or credit cost. Anything you can guide because last few quarters, I mean last quarter also the slippage was ex of the ECLGS book the slippages were INR8 billion. Now there is an ECLGS book but slippage is still INR13 billion. Just wanted to make some sense out of the next two quarters? How should we look at it? Did I understand the second half is typically better. But as far the slippages are concerned, even in last year slippages were elevated in the second half, they were not lower. So, just wanted your thoughts around that.

Sunil Samdani: See, we don't want to put a number to it today, but if you look at the DPD pool. That pool itself has substantially come down quarter-on-quarter. So, we expect the slippage is also according to reflect that change.

Gaurav Kochar: All right. I'll probably take it offline. Thanks.

Moderator: Thank you. The next question is from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Firstly, sir, on margins, right? So, in your opening remarks, you mentioned that margins for the month of September was 7.6% versus -- which is materially higher than what we have reported for the quarter. Is this a function of better yields, as you have mentioned, in terms of festive season? Or you are seeing the cost of deposits or cost of funding easing off?

Vikash Mundhra: No, to correct your number, it is 7.3% and not 7.6%.

Chandra Shekhar Ghosh: September, only September. Only for the month of September.

Jai Mundhra: Okay. So, 7.3% versus 7.2% for the quarter, right?

Sunil Samdani: Yes.

Jai Mundhra: Okay. But anyway, so how are you looking at cost of funds incrementally? Should they remain firmer or do you think they have already or are sort of peaking?

Chandra Shekhar Ghosh: We feel that the -- it will be 20 basis points or 25 basis going up on in next the two quarters.

Ratan Kumar Kesh: Yes, but it will be compensated with higher yield. So, NIM will remain in the guided range of 7% to 7.5%.

Jai Mundhra: Sure. And secondly, on your AUM growth, right? So, I mean, YTD financial year, YTD, it is still a bit negative, right? That would mean a very steep ask for you to deliver the 20% Y-o-Y growth. Of course, there is a second half wherein you see better business momentum, but you are confident of the 20% AUM growth, right?

Chandra Ghosh: We saw that normally; second quarter always has been taken the time to balance with the March figure. So, if in the last two years, we have been saying that it will be taken in the third quarter also. So, whatever the second quarter in this year, we have been seeing that the business growth, especially is coming from EEB INR2,000 crores given the extra which has given very good indication on that. The third quarter will be likely to exceed the YTD. And the March, it will be come to this the nearly 20%.

Vikash Mundhra: Also in March, we had mentioned that there is a very short-term loan against term deposit of INR2,500 crores, right, which is a very short term and which has to be adjusted for the growth. So, if you adjust that INR2,500 crores, we are back to March level.

Jai Mundhra: Right Okay. Sure. And sir, on asset quality, if you can tell us the slippages from the EEB book, so that will make slightly more comparable on the SMA pool. I mean, out of INR1,320 crores of slippages, how much would be from EEB?

Sunil Samdani: So, the EEB is INR1,000 crores, and that includes about INR55 crores of Manipur.

Jai Mundhra: Right. So, sir, if I net that off, so at the beginning of the quarter, we had SMA 0 plus SMA 1 plus SMA 2 of EEB at around INR2,800 crores, out of which INR1,000 slipped, and the ending pool is INR2,260 crores, right? So, there is still a reasonable inflow into SMA pool, right? That maths is right. Right?

Sunil Samdani: One minute. Yes. So, the SMA 2 was about INR720 crores. Last time, which this time is INR690. And SMA 2 plus the Manipur pool typically takes you to the slippages number. So, Manipur is not there next quarter because whatever has to flow has flown. So, which means proportionately, we should see a reduction in the flow as well. And typically, H2 is even better.

Jai Mundhra: Right. And sorry sir, and just to the last clarification, what was so special about Manipur, sorry, just to refresh was?

Sunil Samdani: INR55 crores.

Sunil Samdani: Manipur for the last five months is inactive, right? There is no movement happening there. There is a restriction there.

Jai Mundhra: Okay. Sure. Understood. Thank you, sir.

Moderator: Thank you. We will move to the next question. Next question is from the line of Himanshu Taluja from Aditya Birla Mutual Funds. Please go ahead.

Himanshu Taluja: Hi, sir. Thank for the opportunity. I just have a similar question, what actually the large participants have asked. Sir, if I look at total last quarter, DPD pool together is INR2,800 crores of that DPD pool -- together 1 day to 30 days, 31 days to 60 days and 61 days to 90 days together.

Now in this quarter, that has actually come down to INR2,260 crores. If I took last quarter, INR2,800 crores and INR1,000 crores might be of the slippages.

So, your fresh flows from the standard book looks to be INR500 crores to INR600 crores, which gives me a sense on the total book between 3% to 4% of the incremental standard book is slowing in the par. So, can you just give me a clear -- give me a sense, why that the standard book is still that number looks to be elevated?

Sunil Samdani: I didn't get your calculation; we'll have to rework that calculation.

Himanshu Taluja: Sir, If I -- just like your 1 to 30 days is INR13.3 billion, your 31 days to 60 days is INR7.5 billion, and your 61 days to 90 days is INR7.2 billion of last quarter. Together is a sum of around INR2,800 crores. Fair?

Sunil Samdani: INR2800 crores, correct.

Himanshu Taluja: Yes. And in this quarter, your DPD pool similar 1 to 90 together is INR2,300 crores. Fair?

Sunil Samdani: Yes.

Himanshu Taluja: INR2,800 crores, if INR1,000 crores would have been slipped as an NPA, it means still INR1,800 crores plus some -- your current book is INR2,300 crores. It means INR500 crores would have been come as a fresh flows from the standard pool. And that still remains 3% to 4% of your book basically, which is flowing in the DPD movement. So just trying to get a sense? What is the -- why that fresh flows still remains high?

Sunil Samdani: So, on a steady state basis, we still expect about 2.5% to be the flow. And then there would be a recovery from there, right? And which would bring us to the desired level of credit cost. And what we are talking here is the gross slippages.

Himanshu Taluja: Okay sir, I will take it offline.

Chandra Shekhar Ghosh: No. How you calculate this 3%?

Himanshu Taluja: Yes. Sir, ideally, I'm just saying your last quarter, SMA pool was around INR2,800 crores...and that's INR2,260 now. So, I'm assuming the gross slippages of INR1,000 crores from this has been come from the 1 to 90-day pool. So INR1,000 crores got deducted, it means that last quarter pool would have been around INR1,800 crores. And in this quarter, if you do that together, your reported number is around INR2,300 crores. So, I'm just trying to understand, your fresh flows from the standard pool still comes to around INR500 crores. And if I do analyze this, if I do this as an annualized number, so it means 3% to 4% of the book is coming as an -- is flowing as an SMA. So just trying to get your sense?

Sunil Samdani: I'm a little confused as to why 3% overall is not a good number. Because we say 98% should be the steady state collection efficiency one should expect, and collection efficiency, 98% means there could be 1% or 2% part being customer, which effectively means 3% credit cost or the gross flow into the portfolio. And then there will be recovery from that pool. So that's the guidance we are -- in which we are giving.

Chandra Shekhar Ghosh: And in our case, 96% of full pay paying, 3% partial paying customers.

Himanshu Taluja: Okay. Sorted, sir. Thanks.

Sunil Samdani: Thank you.

Moderator: Thank you. The next question is from the line of Saurabh Kumar from JPMorgan. Please go ahead.

Saurabh Kumar: Sir, just 2 questions. One is your interest on advances has not gone up. So can you just also -- because I thought there would be some repricing, which would happen in the microfinance book. So, what's happening there? And second is, again, back to this forward flow question. So, if you look at your entire zero-plus including NPA, that's gone up by about close to INR300 crores for the quarter. That's 2.3% of the opening book. Is that a fair way to understand it?

Sunil Samdani: The answer to your first question, this growth for the quarter has been back ended. Typically, you see that seasonality in our business. So, July and first half of August, we will still be de-growing. And the book started stabilizing end of August and the growth came typically in the month of September. So, the average for the quarter is lower than the first quarter, and that's precisely the reason why my interest income is lower this quarter vis-a-vis the previous quarter. But this benefit will flow into the coming quarters.

Saurabh Kumar: Okay. And for the interest expense also because of this -- that's mostly mix change or?

Sunil Samdani: No. So, interest expense, as we mentioned, in this quarter, we had taken an increase in saving bank rate, which kept transmitted almost immediately. The term deposit, if I have to reprice it basis, the current rate that we are offering on entire book, we expect the cost of funds to go up by about 20 basis points, 20 to 25 basis points, assuming current rate prevails.

Saurabh Kumar: Sir, my point is your interest expense is also like gone up only 1%. Your borrowings per deposits also like similar amount. So, there is we would have expected higher cost of funds that doesn't seem to have come through?

Sunil Samdani: No. So, in fact, it's also the other way around because the benefit of the low-cost CASA came in only in the second half of the quarter.

Saurabh Kumar: Okay. And just on the forward flow question, sir?

Management: We discussed that.

Saurabh Kumar: No. Point was as 300 crores as a percentage of opening book is 2.3%. Is that the way to understand it, the total gross flow?

Management: Yes. That's the right way to understand.

Saurabh Kumar: Okay.

Moderator: Thank you. We move to the next question. The next question is from Pranav Gupta from Aionios Alpha Investment Managers. Please go ahead.

There seems to be no response from the line of Mr. Pranav Gupta. The next question is from the line of Saurabh Kumar, please go ahead.

Saurabh Kumar: Hey, all my question has been answered.

Moderator: Thank you. We will move to the next question. The next question is from the line of Prabal from Ambit. Please go ahead.

Prabal Gandhi: Sir, this quarter, we saw very good pickup in saving deposits, but as a trend, savings deposit was volatile. So why is there a volatility and was there a one-off in term deposits this quarter?

Sunil Samdani: No. See, there has not been any element of volatility in our book. In fact, every quarter we had explained where there has been a movement from saving to term deposit. We've seen two quarters where the term deposit rate was materially higher than the saving banks rate. We saw the funds moving from saving to term deposits. As we've now increased the savings banks rate as well. We see a stability in the saving bank deposits. So, with increasing customer base, the deposit is also growing because there is no material outflow there. And that's the reason why we see the savings banks score.

Prabal Gandhi: Okay. There was no one-off in some of the larger monthly targeting…

Sunil Samdani: Nothing.

Prabal Gandhi: And sir, the second question is, so we had earlier said that we are looking to reduce share of group loans, group microfinance loans in the overall book. But again, this quarter, we saw a pretty sharp jump in group disbursement. So, is there a change in strategy or this is just an opportunistic kind of investment since we are like targeting the loan growth of 20%?

Sunil Samdani: No. We said the percentagewise, the share of group loan will come down. So as our retail, commercial, other businesses start doing better in terms of growth. We are also increasing our EEB. The idea was never to degrow the EEB or a group loan book. The idea was that the other businesses will pick up faster so that our secured, unsecured balances make up. And which is the case, which is happening. We see the secured businesses are doing and having a faster growth.

Ratan Kumar Kesh: So, retail has grown 80% YoY; commercial 65% YoY. We continue to maintain 20% overall growth with 17% on the EEB side.

Prabal Gandhi: Okay. And just last question on the expense side. So, since we are looking to grow the commercial banking book and going to the higher ticket size in the microfinance as well. Do you feel that the policy of employees, the kind of salaries that they are getting currently will also have to be raised? And so structurally, now we are going to see higher and deeper employee compared to what we have had in the past. In terms of introducing these new products and new businesses?

Sunil Samdani: That has already been happening over the last couple of years, we've been investing in retail and commercial. That will continue. And as you progress, even on the retail side, we will need to hire good quality talents as well as on the commercial side. That's already happening. There is nothing new. It will continue to happen in that manner.

Prabal Gandhi: So, meaning the opex to market or cost to income will continue to stay higher for us, at least for next two years to three years as we stabilize all the things also?

Sunil Samdani: Not really. Guided for 3.5% opex to assets. H2 is the period where the growth in the balance sheet happens. So, with the growth in balance sheet, 3.5% opex to assets will be met.

Ratan Kumar Kesh: And more importantly, the bulk of the cost on the IT transformation and new branches that we have added, that has already been done. Incrementally the IT transformation significant costs will come down. New branch addition, as we said, will be 100 to 120 per year. So even that will also taper down.

Prabal Gandhi: Understood. Thank you. All the best.

Sunil Samdani: Thank you.

Moderator: Thank you. The next question is from the line of Praful Kumar from Dymon Asia. Please go ahead.

Praful Kumar: Thanks for the opportunity, sir. Very good evening to all of you. Sir, first question is, is there any communication from the RBI on the Assam refund that we had to get?

Ratan Kumar Kesh: Assam refund, one tranche has already been paid. We received some INR47crores odd, and we refunded back certain amount of money where the customer had already paid back. And that is for the lower ticket size of up to INR25,000 tickets. It's not related to RBI though. It's on the directly Assam government.

Praful Kumar: Okay. But incrementally, any update when the next tranche will be...

Ratan Kumar Kesh: Yes. And when they announce the higher ticket size, we expect to get a higher share of the overall kitty.

Praful Kumar: All right. And sir, second observation and comment from Mr. Ghosh would be to understand more on the senior level exits that we have seen in the bank for the last one year. So, broadly want to understand more from a culture point of view, anything that we are doing incrementally to ensure that stability at the top level is maintained?

Chandra Shekhar Ghosh: Yes. We are maintaining in that top level.

Praful Kumar: Okay, sir. All the best.

Chandra Shekhar Ghosh: Thank you.

Moderator: Thank you. The next question is from the line of Srijan Sinha from Future Generali India Life Insurance Company. Please go ahead.

Srijan Sinha: Yes. Thank you. Sir, I wanted to understand what is the status of the CGFMU recovery that we were supposed to get earlier in Q1, then it got pushed into Q2? And we have still not got that? Where is it?

Ratan Kumar Kesh: CGFMU, there was an audit done, considering there's a large amount, the initiated an audit, audit has been completed. There are certain queries that had been raised. We are answering those queries. That resulted into some bit of a delay in the whole process. But we are engaging with them as and when it comes, we'll keep you updated.

Srijan Sinha: And that would hopefully happen in this quarter?

Ratan Kumar Kesh: Because it's a government matter, we cannot put a date because that's a wrong to commit anything. But yes, we are pretty much engaging and answering the queries. And yes, it has slightly delayed the process so far. So, we are hopeful that it should come out at some point.

Srijan Sinha: Okay. And sir, my second question is on savings bank interest rate hike that you have done. I missed -- when was it implemented?

Shantanu Sengupta: Yes. It was implemented last month. That's on a specific bucket.

Srijan Sinha: In September month, you mean?

Shantanu Sengupta: That's right.

Chandra Shekhar Ghosh: From September.

Srijan Sinha: Okay. And sir, my final question is on the asset quality. I mean, if I look at your collection efficiency, quarter-on-quarter, that has gone up by, let's say, about 100 bps, excluding NPAs. The 98% has gone to 99%. Is the collection efficiency that 98%, 99% consistently over the last 6-odd months, what explains this forward flow into the NPA bucket?

Sunil Samdani: See, we've been telling this that our full paying customer, one should look at collection efficiency, along with the full paying customers. That has been only 96%, which typically means at some point of time, 4% of the customers will slip into NPA. Since they are part paying. There will be recoveries also from those customers and ultimately, we'll recover some money from those. So that is where you see the 3.5%, 4% kind of a gross slippages number coming in because the full paying customer is 96%.

Moderator: The next question is from the line of Prakhar from Elara Capital. Please go ahead.

Prakhar Agarwal: Three questions. First, in terms of CGFMU recovery. I know you probably mentioned that you can't put a timeline to it, but this was always the government thing. So, what made us change our stance in 1 quarter where we were so certain that it will get reflected in Q2. And now in this presentation, when I look at, we have not even put out a date that -- will still reflect in Q3 also.

And what happened with ECLGS guarantee whereas we also last time said that it will happen in Q2 but that seems to also get delayed.

Ratan Kumar Kesh: So, the only change, Prakhar, is that in the first tranche for the INR900 odd crores, there are no audit. In the second tranche, there is an audit happened. And given that audit has happened, and there are certain queries raised, so we are answering all of those queries. That according to us, it has delayed the process. Otherwise, we are quite hopeful to get it. Audit also happened because the amount is more than INR1,000 crores.

Chandra Shekhar Ghosh: Claim amount is in higher. If you see that the INR917 crores is the first tranche. Second tranche, we are INR1,290-odd -- INR1,290 crores. So, when it has been exceeding the INR1,000 crores. So, there is some process there. It must be audit and then we would be like to process on that.

Ratan Kumar Kesh: And ECLGS, yes, as you know, it's a bit of an operational -- that upload issue, and it's happening on track. I think INR85 crores is already done, INR410-odd crores is still pending. And it will happen as per the process because there are no bulk upload facilities, it has to be run...

Sunil Samdani: ECLGS last time we discussed. That it has to be uploaded one by one. There is no bulk upload facility, and there are capacity constraints at the CGFMU. So, we have uploaded and received INR85 crores in the quarter. The total amount to be received is about INR500 crores, of which 85% is received, INR410 crores is something which is pending.

Prakhar Agarwal: Okay. Just on second question on liability side, you probably mentioned a bit about it, but on savings, when I look at the average SA balance for customers. There, when I look at the competent doing at an industry level and you are reporting Rs 3,000 balance the customers rise in the quarter, how -- what explains this?

Sunil Samdani: No. So, as we mentioned, we've increased our savings banks rate. And so, it gives customer the flexibility to use the savings bank account at maybe 1%, 1.5% lower than what they get in the bank deposit. And if the customer wants to opt for that, they trans -- they don't -- they keep money in the savings bank instead of moving it to the term deposits. And that has helped us increase the overall balance. If you see in September '22, it was INR59,000. It came down to 51000 because the gap between savings and the time deposit rates increased during this period. As time deposit rates went up by almost 200 basis points in last 1 year and saving banks remain constant. The quarter-on-quarter growth has come up.

Prakhar Agarwal: No sir. Every thought process that I had is that you raised rate in September. So probably our customer base is so sensitive to interest rate that we probably saw within the fortnight that our average balance is moving from INR51,000 to INR 54300

Sunil Samdani: That has also helped and also the new customer base that we acquire. And if you offer 6.5%, 6.75% as an interest rate, so clearly, these customers, there is some bit of sensitivity towards the rate. We are a bank since inception, we've been offering the differential interest rates.

Shantanu Sengupta: Yes. I think just to add to what Sunil said, if you look at the individual customer segments, the overall balances have gone up. So that's something that we're seeing as a positive side. Prakhar.

Prakhar Agarwal: Just one last bit in terms of your other income. So, this collection fees for ARC that you had of around INR37 crores this quarter. Given that for December tranche that you have already paid to and March you're expecting that it will be paid through in the next quarter. And when do we see this collection fees coming from ARC?

Vikash Mundhra: I think by Q4 we should stop receiving this collection. So in Q3, we would receive and some part of that could flow in Q4. But after that, I don't think that collection fee would be applicable for us.

Prakhar Agarwal: Got it. And INR93 crores that we talked about is there in other -- of other fee income?

Vikash Mundhra: Yes, that's part of the other income. So other income also has INR44 crores mark-to-market hit on account of bond yields going up. And this INR93 crores as well.

Moderator: The next question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Just one thing on the housing book growth has been slow for 3, 4 quarters now. So, any comments on that would be helpful?

Shantanu Sengupta: Yes. Thank you for the question. We are what we see in the housing book is that we are seeing a steady recovery. If you look at two or three things that we are seeing as green shoots, one, the fact that overall disbursals are going up. Two, we are seeing productivity of our businesses, especially across the country is going up. We did a change in platform, etcetera, and therefore, the impact that we had initially foreseen we have gone past that. So, what we see right now is steady recovery. I personally foresee that over the next quarter, we see even stronger growth coming back because the underlying drivers of the business are looking reasonably strong now.

Ratan Kumar Kesh: And just to put some numbers here, the disbursement run rate has moved from INR200 crores per month to INR550 crores per month already. And from here on as Shantanu said, Q3, Q4 intent we would get to -- we should see a significant growth uptick from here on.

Piran Engineer: Got it. Okay. And secondly, just in terms of your 3.5% expense ratio guided. Is that for FY'25, or FY24, if you could just remind us, please?

Vikash Mundhra: This is for FY'24.

Piran Engineer: Okay. And then in '25, we expect that to go down?

Vikash Mundhra: 10 basis points improvement. But we'll communicate that in Q4.

Moderator: The next question is from the line of Param Subramanian from Nomura. Please go ahead.

Param Subramanian: Thanks for the opportunity. Just one question on the -- if you could remind us the accounting for the CGFMU recovery, INR1,600 crores, how it will flow through to the P&L? Will it just reflect as recoveries and upgrade with minimal impact to the P&L. Is that understanding correct?

Sunil Samdani: No. So, the entry will be the same as and when it comes, what was for INR916 crores, which means this money has to be passed into a separate account as liability and that account can be treated as part of the provision cover, which effectively means your net NPA comes down.

Param Subramanian: Okay. And your PCR moves higher without any direct impact to the P&L, say, if it comes to in Q3, it will not reflect any direct impact in the P&L. Right?

Sunil Samdani: Yes.

Param Subramanian: Okay, that's it. Thanks.

Sunil Samdani: Thank you.

Moderator: Thank you. The next question is from the line of M.B. Mahesh from Kotak Securities. Please go ahead.

M.B. Mahesh: Hi, just one question. Are you able to do any form of analysis of the delinquent borrowers, if they are able to get access to any other form of credit with other MFIs?

Ratan Kumar Kesh: Mahesh, once we are finding out anyone from the credit bureau. -- automatically, they are credit score has come down -- so they are not eligible to get the funding from us because we have been introduced the credit score or listed the credit borrower.

Vishal Wadhwa: Typically, also the MFI so they do not give any loan for anybody who has defaulted in the other financial company. So, anybody who's into NPA with us will not be given a loan outside. And similarly, we do not do that. There's a board of conduct to be signed by SRO body. So, to answer your question, no.

M.B. Mahesh: Okay. Because the problem has been that the delinquency that we see in your book is completely at odds to what we are seeing outside -- so just trying to understand what experience a consistent divergence in performance that still exist today when everything suggested on the ground tools have improved. So where is the mix that we are consistently getting on being surprised on the asset quality numbers?

Sunil Samdani: So, we discussed this last time, right? As an organization, we have tightened our policy in terms of people eligible for the new loan, whereas at the industry level, we see more of a business as usual and loosening requirements vis-a-vis the COVID times. So that could be one. And in an unsecured loan, just to give you an example, today, our policy says if a customer becomes NPA and they repay the loan, we will wait for 90 days before we extend a new loan. And these 90 days, we will track their CIBIL and see their track record outside Bandhan. So, these kind of policies are not there outside. That could be one of the reasons. It's -- unless you have a detailed survey, very difficult to...

Vishal Wadhwa: Plus, you would also look at DPD from one to 180 and then 180 plus as well. So, if you go into those two breakups, you may not find too much of a difference. You may find a difference between maybe from a one to 180 number, 180 plus would be pretty much aligned with all the other companies.

M.B. Mahesh: Sorry, just to clarify, Sunil, on this point, when the borrower knows that the risk of not getting a fresh disbursal is high for the next 90 days and there is an availability of alternate channels of credits to have started to disburse loans. Why do you think the borrower is not utilizing the facility and list a no disbursement scenario for the next 90 days or probably much higher till the time he repays his dues?

Sunil Samdani: We'll feel that way and we'll act accordingly. But ultimately, I have to bring that credit culture back. So, what is required to do that. There has to be some tough decisions to be taken to bring back that credit culture.

M.B. Mahesh: Okay, sir. Thanks.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to the management team for closing comments.

Ratan Kumar Kesh: I want to thank all the participants in this investor call for posing us a question and listening to us and giving us an opportunity to answer the question. We look forward to interacting with you more as we progress. And some of the queries that you have posed -- we probably could not only the specific numbers, we can take those offline. Vikash will be ready to sort of take those question and answer. And on behalf of our Founder and CEO, Mr. Chandra Shekhar Ghosh and the entire management team, I have the pleasure to wish you all the best for Durga Puja and the festive season. Thank you.

Chandra Shekhar Ghosh: Thank you to all of you.

Moderator: Thank you very much. On behalf of Bandhan Bank, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.